COMBINED

ENGINEERED

PRODUCTS

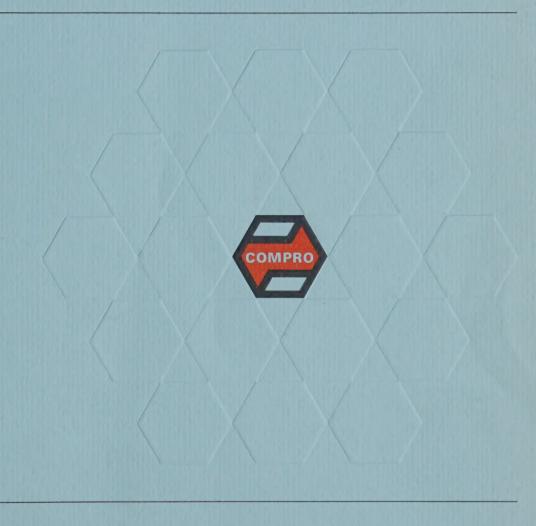
LIMITED

TWENTY-FOURTH

ANNUAL

REPORT

1968





TWENTY-FOURTH ANNUAL REPORT 1968 COMBINED ENGINEERED PRODUCTS LIMITED 48 St. Clair Avenue West, Toronto 7, Canada

HONORARY DIRECTOR

C. S. BAND

Toronto

BOARD OF DIRECTORS

*M. O. SIMPSON, JR. Toronto, Chairman and Chairman, Executive Committee

D. S. BEATTY Toronto

J. P. CARRIÈRE Montreal

*P. S. NEWELL Toronto

M. O. SIMPSON Tucson, Arizona

b. L. TORREY Montreal*H. M. TURNER Toronto

*Members of Executive Committee

OFFICERS

M. O. SIMPSON, JR. President

B. T. H. KNILL Secretary-Treasurer

TRANSFER AGENTS AND REGISTRARS

MONTREAL TRUST COMPANY

Edmonton, Halifax, Montreal, Toronto, Vancouver and Winnipeg

REGISTRAR AND TRANSFER COMPANY

15 Exchange Place, Jersey City 2, N.J.

AUDITORS

PARENT COMPANY AND THE CANADIAN SUBSIDIARY COMPANIES McDonald, Currie & Co.

SOUTHEASTERN ELEVATOR CO. INC.

Lybrand, Ross Bros. & Montgomery (associated firm of McDonald, Currie & Co.)

FRINK SNO-PLOWS INC.

Leon W. Robb

THE DIRECTORS' REPORT

To the Shareholders of

COMBINED ENGINEERED PRODUCTS LIMITED

17,083,474

On consolidated sales of \$16,779,378 the company earned a profit of \$386,973 after providing \$376,000 for income taxes. This profit, after the payment of \$110,000 dividends on the Preferred shares, Series A is equal to 45ϕ per Common share, compared with 50ϕ per share last year.

419,314

Capital expenditure on plant and equipment was \$490,677, and on land it was \$33,916, for a total of \$524,593. Additional land adjacent to Frink Sno-Plows' property in Clayton, New York, was acquired for the purpose of adding to this company's production facilities. Also, in Toronto an agreement to purchase land was entered into for the possible future expansion of Hamilton Gear and Machine Co. It is planned to spend approximately \$415,000 in the current fiscal year on additions to production machinery, and an additional \$125,250 will be spent to complete the purchase of the Hamilton Gear land.

Working capital at August 31, 1968 is \$2,861,961 which, compared with

that of a year earlier, represents a decrease of \$143,968, the details of which are explained in the statement of source and use of funds.

At August 31, 1968, Common shareholders' equity is \$1,786,761, equal to \$2.92 per share.

Consolidated sales decreased by 2.9% compared to the previous year, however this represents an increase of 10.4% in the sales of the U.S. subsidiaries, and a decrease of 9.4% in the sales of the Canadian companies. While the profits of the U.S. companies were up, this increase was insufficient to compensate for the drop in earnings of the Canadian companies.

The sectors of the economy upon which the Canadian operations are most dependent, namely construction and capital expansion of heavy industry, were less active during the past year and tended to accentuate the ever present cost-price squeeze. The forecasts for the forthcoming year indicate that this situation may improve, and therefore a slight increase in the earnings of the Canadian companies is anticipated.

Both the U.S. companies showed an improvement in 1968 and it is expected that this trend will continue.

In the coming months each of the major manufacturing companies will



COMBINED ENGINEERED PRODUCTS LIMITED ANNUAL REPORT 1968

be negotiating new contracts with their respective bargaining units.

Shareholders should be aware that, despite the Company's efforts to

achieve reasonable and fair settlements, work stoppages can occur. At

the time of writing a strike of the hourly rated employees of the Hamilton

Gear Division is entering its sixth week. It should be emphasized that

such work stoppages will make it difficult for the Company to meet its

present forecasts.

PERSONNEL

During the year Mr. S. P. Lockhart was appointed President of Frink

Sno-Plows, Inc., enabling Mr. J. R. Irwin to devote his full-time attention

to the affairs of Eastern Steel Products Ltd.

Mr. R. A. Davis was appointed President of Southeastern Elevator

Co., Inc.

The shareholders will note that Mr. C. S. Band, after seventeen years of

service, retired as a full-time director, and subsequent to last year's

Annual Meeting he was appointed an Honorary Director. For his past

contribution and his continuing interest we are most grateful.

On behalf of the Board of Directors,

Toronto

October 29, 1968

Chairman

5

CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1968

			1968	1967
ACCETC			\$	\$
ASSETS	1000			
CURRENT ASSETS			633,475	199,461
Cash				
Accounts receivable—trade			2,539,573	2,454,603
Accounts receivable—other (Note 2)			91,237	190,620
Special refundable income tax			2,882	_
Inventories—at the lower of cost or net reali	,		4,163,332	3,774,511
Prepaid expenses			97,147	89,301
Mortgages receivable due within one year			5,750	
			7,533,396	6,708,496
	Cost	Accumulated Depreciation		
FIXED ASSETS	\$	\$		
Land	179,228	1 2	179,228	155,312
Buildings	1,548,429	664,849	883,580	954,837
Machinery and Equipment	4,718,232	3,296,805	1,421,427	1,313,114
	6,445,889	3,961,654	2,484,235	2,423,263
OTHER ASSETS				
Excess cost of investment in businesses acq assets at dates of acquisition			137,217	137,217
Patents—at cost, less amounts written off			8,639	9,710
Mortgages receivable			35,000	11,000
Special refundable income tax			4,709	10,099
1			185,565	168,026
			,	
			10,203,196	9,299,785

	1968	1967
I LADIL ITALES	\$	\$
LIABILITIES		
CURRENT LIABILITIES		
Bank loans (Note 4)	2,122,000	1,621,360
Accounts payable and accrued liabilities	1,872,098	1,326,651
Income and other taxes payable	250,857	422,156
Portion of long term liabilities due within one year (Note 5)	426,480	332,400
	4,671,435	3,702,567
LONG TERM LIABILITIES (Note 5)	1,581,000	1,988,000
DEFERRED INCOME TAXES	164,000	100,000
SHAREHOLDERS' EQUITY CAPITAL STOCK Authorized— 200,000 Preferred Shares of the par value of \$20 each, issuable in series 1,200,000 Common Shares without nominal or par value (Note 6)		
Issued and fully paid— 100,000 \$1.10 Cumulative, Convertible Preferred Shares, Series A, redeemable at \$21.50	2,000,000	2,000,000
612,300 Common Shares (Note 7)	157,250	157,250
RETAINED EARNINGS	1,617,009	1,340,036
	12,502	
EXCHANGE EQUALIZATION RESERVE		11,932
	3,786,761	3,509,218
	10,203,196	9,299,785

M. O. SIMPSON, JR., Director

H. M. TURNER, Director

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1968

	1968	1967
	\$	\$
ALES	16,779,378	17,283,474
STS		
Cost of products sold	12,843,842	13,382,189
Advertising	163,605	180,102
Selling expenses	875,541	801,624
Research and product development	62,687	43,129
Administrative and general expenses	1,328,668	1,270,265
Depreciation and amortization	428,786	436,023
Interest on bank loans	124,960	211,355
Interest on long term liabilities	112,066	62,434
Directors' remuneration	76,250	69,039
	16,016,405	16,456,160
ROFIT BEFORE INCOME TAXES	762,973	827,314
NCOME TAXES		
Current	312,000	378,000
Deferred	64,000	30,000
	376,000	408,000
ET PROFIT FOR THE YEAR	386,973	419,314
8		

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1968

	1968	1967
	\$	\$
BALANCE—beginning of year	1,340,036	1,100,922
NET PROFIT for the year	386,973	419,314
	1,727,009	1,520,236
DIVIDENDS—Preferred Shares	110,000	110,000
	1,617,009	1,410,236
PRIOR YEARS' INCOME TAXES OF A U.S. SUBSIDIARY	gaments-res	70,200
BALANCE—end of year	1,617,009	1,340,036

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Combined Engineered Products Limited and wholly owned subsidiary companies as at August 31, 1968 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of the parent company and those of its subsidiary companies of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary company.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co. Chartered Accountants

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED AUGUST 31, 1968

	1968	1967
	\$	\$
SOURCE		
Operations—		
Profit for the year	386,973	419,314
Add: Depreciation provided	428,786	436,023
Deferred income taxes	64,000	30,000
Exchange adjustment	570	_
Write-off of long term receivable	_	46,991
	880,329	932,328
Disposals of fixed assets	35,906	2,639
Reduction (increase) in special refundable income tax	5,390	(6,499)
Proceeds from sale of investment and repayment of advances	_	39,650
	921,625	968,118
Reclassification of bank loan		1,000,000
Less: Current portion	Manager	100,000
		900,000
	921,625	1,868,118
USE		
Reduction in long term liabilities	407,000	158,600
Dividends paid to preferred shareholders	110,000	110,000
Additions to fixed assets	524,593	308,601
Increase (reduction) in mortgages receivable	24,000	(2,793)
Prior year's income tax	_	70,200
	1,065,593	644,608
INCREASE (DECREASE) in working capital	(143,968)	1,223,510

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 1968

1. BASIS OF CONSOLIDATION

The accounts of wholly owned subsidiary companies have been consolidated. Assets, liabilities and earnings of the United States subsidiary companies have been converted to Canadian funds at \$1. U.S. = \$1.08 Canadian.

The 1967 figures on the consolidated statement of earnings reflect operations for only one month and three months respectively of Brake Drum & Shoe Service 1967 Ltd. and Bush Roller Company Limited. The 1968 figures reflect the complete year's operations.

2. ACCOUNTS RECEIVABLE—OTHER

This amount represents the net accounts receivable repurchased (less a provision for doubtful accounts of \$19,731) under an agreement dated February 24, 1966 with Dover Corporation relating to the sale of the elevator companies.

It is expected that the final adjustment, if any, relating to these receivables will be made by August 31, 1970.

3. Inventories	1968	1967
These comprise:	\$	\$
Raw Materials	1,373,503	1,166,113
Work in Process	829,862	744,023
Finished Goods	1,959,967	1,864,375
	4,163,332	3,774,511

4. BANK LOANS

Bank loans in the amount of \$2,490,000 at August 31, 1968 have been secured by pledging the inventories and trade accounts receivable of the divisions of the parent company and one Canadian subsidiary.

5. Long Term Liabilities	Long Term	Portion due within One Year
4½% Sinking fund debentures, Series A maturing April 15, 1970 (Sinking fund payment sufficient to redeem \$200,000 principal amount due on	\$	\$
April 15, 1969; less purchased for redemption \$500)	825,000	199,500
Demand bank loan—scheduled for repayment by December 31, 1972		
(Note 4)	700,000	200,000
Sundry notes and mortgages	56,000	26,980
	1,581,000	426,480

6. COMMON SHARES

150,000 Common Shares are reserved for the conversion of the \$1.10 Cumulative, Convertible Preferred Shares, Series A. Each such Preferred Share may be converted to 1½ Common Shares to December 1, 1970, and to 1 Common Share thereafter to December 1, 1972.

7. DIVIDEND RESTRICTION

The provisions of the \$1.10 Cumulative, Convertible Preferred Shares, Series A prevent the payment of dividends on the Common Shares unless, immediately after giving effect to such action, the aggregate amount of dividends paid subsequent to August 31, 1962 on all shares of the company, will not be more than the consolidated net earnings since that date. Before dividends on the Common Shares can be paid, therefore, additional consolidated net earnings (after payment of the cumulative dividends on the Preferred Shares) of \$1,975,000 must be made.

8. Unfunded Pension

Employees' pension plans have an unfunded liability at August 31, 1968 of approximately \$375,000. The company intends to fund this amount over 22 years.

9. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company amounts to \$172,765, which includes the amounts of \$66,000 for remuneration and \$10,250 for fees, the total of which is shown as directors' remuneration in the consolidated statement of earnings.

10. COMMITMENTS

(a) LEASES

Annual rentals on real property leases of more than three years' duration approximate \$135,000. Such leases expire at varying dates before 1993.

(b) CAPITAL EXPENDITURES

Under an Agreement of Purchase and Sale dated July 5, 1968 the company has agreed to purchase approximately 16.5 acres of land at \$8,500 per acre for a total amount of \$140,250. The purchase price is to be settled by \$70,125 in cash, \$15,000 of which has been paid and included in the August 31, 1968 financial statements, and by the vendor granting a \$70,125 five year mortgage at $8\frac{1}{2}\%$.

11. CONTINGENT LIABILITIES

Under the terms of an Agreement dated February 24, 1966 with Dover Corporation for the sale of the elevator companies, the company may be called upon to reimburse Dover for liabilities arising prior to February 28, 1966 which were not recorded as at that date. If these liabilities are deductible for income tax purposes by the elevator companies, then the reimbursement which the company may be called upon to make is reduced by 50%. Under the terms of this indemnity, which expires on December 31, 1973, the company is aware of litigation in the United States for amounts totalling \$800,000. These actions have arisen between the date of sale and the present time. In the opinion of management the above actions will be settled for materially less than \$800,000, and furthermore would be deductible for income tax purposes. It is impossible at this time to ascertain what, if any, payment will have to be made in respect to these actions.

48 St. Clair Avenue West, Toronto 7, Ontario

DIVISIONS

AMERICAN WRINGER COMPANY ST. LAWRENCE RUBBER COMPANY	C F Dlant
Farnham, Quebec	G. E. Plant, President
BRAKES AND WHEELS	M. A. Chase,
Regina and Saskatoon, Saskatchewan	President
FORT GARRY AUTOMOTIVE INDUSTRIES	D. L. Suché,
Winnipeg, Manitoba and Port Arthur, Ontario	President
HAMILTON GEAR AND MACHINE COMPANY Toronto, Ontario	P. H. Slaughter, President
SUBSIDIARIES	
BRAKE DRUM AND SHOE SERVICE 1967 LTD. Winnipeg, Manitoba	D. L. Suché, President
BUSH ROLLER COMPANY LIMITED	G. E. Plant,
Toronto, Ontario	President
EASTERN STEEL PRODUCTS LTD.	J. R. Irwin,
Preston, Ontario and Montreal, Quebec	President
FRINK SNO-PLOWS INC.	S. P. Lockhart,
Clayton, New York	President
SOUTHEASTERN ELEVATOR CO. INC.	R. A. Davis,
Atlanta, Georgia	President











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DIVISIONS

BRAKES AND WHEELS

Regina and Saskatoon, Saskatchewan

BRAKE DRUM AND SHOE SERVICE

Winnipeg, Manitoba

FORT GARRY AUTOMOTIVE INDUSTRIES

Winnipeg, Manitoba and Port Arthur, Ontario

HAMILTON GEAR AND MACHINE COMPANY

Toronto, Ontario

SUBSIDIARIES

EASTERN STEEL PRODUCTS LIMITED

Preston, Ontario and Montreal, Quebec

FRINK SNO-PLOWS INC.

Clayton, New York

LAWRON INDUSTRIES LIMITED

AMERICAN WRINGER COMPANY

ST. LAWRENCE RUBBER COMPANY

Farnham, Quebec

BUSH ROLLER COMPANY

Toronto, Ontario

SOUTHEASTERN ELEVATOR CO. INC.

Atlanta, Georgia

COMBINED ENGINEERED

PRODUCTS LIMITED



TO SHAREHOLDERS

INTERIM REPORT

FOR THE SIX MONTHS

ENDED FEBRUARY 28, 1969

To the Shareholders

Profits for the first six months of the current fiscal year declined 26% to \$151,833. The lower profits experienced so far this year wages, salaries, money and taxes, most of which we are unable to pass on by way of price increases reflect the continuing rise in the costs of material, in the products we sell This emphasizes the concern which we have expressed in previous reports about the effects of inflation on our operations.

vated by a seven-week strike at the plant of Profitability for this period was further aggra-Hamilton Gear. The sales volume of Hamilton Gear, American Wringer and Eastern Steel's Industrial Division showed a substantial increase. If this proves to are at their lowest level for the past three years. In March, orders received in all these divisions be a continuing trend, then there is reason to expect that the sales and profits for the balance of this fiscal year will be somewhat better. We shall be able to report to you more definitely on this in the next interim report three months from now.

Chairman and President M. O. SIMPSON, JR.

2,929,429

3,049,162

COMBINED ENGINEERED PRODUCTS LIMITED

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1969 (Subject to Year End Adjustments and Audit)

	1969 1968	reoruary 29 1968
	€9	69
SALES	9,190,420 9,127,414	9,127,414
PROFIT BEFORE INCOME TAXES	321,933	382,780
ESTIMATED INCOME TAXES	170,100	191,390
NET PROFIT FOR THE PERIOD	151,833	191,390

INTERIM CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1969 (Subject to Year End Adjustments and Audit)

	February 28 February 29 1969 1968	February 29 1968
Source	€ 3	69
Operations		
Profit for the period	151,833	191,390
Depreciation provided	232,741	222,540
	384,574	413,930
Increase in non current bank loans	185,000	
Increase in mortgage payable re fixed assets	74,954	ļ
	644,528	413,930
USE Dividends paid to preferred shareholders	55,000	55,000
Additions to fixed assets	402,327	332,266
Reduction in long term liabilities	1	100,000
Increase in special refundable income tax		3,164
	457,327	490,430
INCREASE (DECREASE) in working capital	187,201	(76,500)
WORKING CAPITAL at beginning of year	2,861,961	3,005,929
WORKING CAPITAL at end of period	3,049,162	2,929,429
CURRENT ASSETS	7,251,262	6,340,429
CURRENT LIABILITIES	4,202,100	3,411,000

DIVISIONS

ST. LAWRENCE RUBBER COMPANY AMERICAN WRINGER COMPANY

Farnham, Quebec

BRAKES AND WHEELS

Regina and Saskatoon, Saskatchewan

FORT GARRY AUTOMOTIVE INDUSTRIES

Winnipeg, Manitoba and Port Arthur, Ontario

HAMILTON GEAR AND MACHINE COMPANY

Toronto, Ontario

SUBSIDIARIES

BRAKE DRUM AND SHOE SERVICE (1967) LIMITED

Winnipeg, Manitoba

BUSH ROLLER COMPANY LIMITED

Toronto, Ontario

EASTERN STEEL PRODUCTS LIMITED

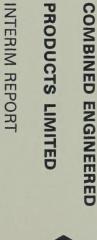
Preston, Ontario and Montreal, Quebec

FRINK SNO-PLOWS INC.

Clayton, New York

SOUTHEASTERN ELEVATOR CO. INC.

Atlanta, Georgia

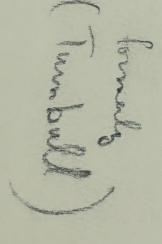




TO SHAREHOLDERS

FOR THE SIX MONTHS

ENDED FEBRUARY 29, 1968



To the Shareholders:

Profits for the six months of the current fiscal year declined 11% to \$191,390. Improved sales and profits of the company's American operations were offset by reduced sales and profits of the Canadian operations. As reported to you in the last Annual Report, there has been a slow-down in the rate of incoming orders at Eastern Steel Products Limited and Hamilton Gear & Machine Co. It now appears that there will not be an appreciable improvement in this situation in time to affect this year's results.

pany's Canadian operations, during the course increases in line with productivity improvements Compounding the problems facing the comof the next few months negotiations with several it is the company's aim to hold wage and salary so as not to further jeopardize our ability to compete profitably in the domestic and export bargaining units will be conducted. In this regard, markets.

It is expected that the present trend of reduced earnings will continue for the balance of the year.

Chairman and President M. O. SIMPSON, JR.

2,158,999

2,929,429

COMBINED ENGINEERED PRODUCTS LIMITED

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 1968

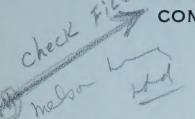
	February 29 1968	February 29 February 28 1968 1967	
	69	89	
SALES	9,127,414	9,127,414 9,120,031	
PROFIT BEFORE INCOME TAXES	382,780	432,314	
ESTIMATED INCOME TAXES	191,390	216,157	
NET PROFIT FOR THE PERIOD	191,390	216,157	
		The second secon	

INTERIM CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 1968

TOR THE SIX MONTHS ENDED FEBRUARY 29, 1908	T. L	T. 1.	
SOURCE	1968 1967	1967	
Operations	6/9	69	
Profit for the period	191,390	216,157	
Depreciation provided	222,540	225,043	
Write off of long term receivable	1	46,991	
Proceeds from the sale of investment and repayment of advances	413,930	488,191	
	413,930	527,841	
USE			
Reduction in long term liabilities	100,000	1	
Payment of special refundable income tax	3,164	5,385	
Payment of dividends to preferred shareholders	55,000	55,000	
Additions to fixed assets	332,266	90,876	
	490,430	151,261	
INCREASE (DECREASE) in working capital	(76,500)	376,580	
WORKING CAPITAL at beginning of year	3,005,929	1,782,419	
WORKING CAPITAL at end of period	2,929,429	2,158,999	
CURRENT ASSETS	6,340,429	7,158,105	
CURRENT LIABILITIES	3,411,000	4,999,106	



FORTY-EIGHT ST. CLAIR AVENUE WEST
TORONTO 7, ONTARIO, CANADA

June 30, 1966.

REPORT TO SHAREHOLDERS:

RE: Sale to Dover Corporation of Turnbull Elevator of Canada Limited and of Turnbull Elevator Incorporated (exclusive of the assets of the Atlanta, Georgia hydraulic elevator division), the closing of which was completed June 1, 1966.

- (a) The effective net cash proceeds from the sale amounted to \$8,247,000. This amount was applied to reduce the consolidated indebtedness of the Company.
- (b) The losses sustained by the elevator companies for the six months ending February 28, 1966, plus the requirements under the terms of the sale agreement to provide for certain contingencies and the costs required to complete the elevator contracts outstanding at February 28, 1966, necessitated a charge to surplus of \$3,916,392.
- (c) Although the previous paragraph indicates a significant reduction in the shareholders' equity, it should be noted that independent appraisals made in June 1965 showed an excess of approximately \$4,000,000 in the value of the fixed assets of the major companies now remaining over the book values appearing on the balance sheet at this time.
- (d) Supplementary Letters Patent, under date of June 8, 1966, have been issued to the Company confirming the change of the Company's name to Combined Engineered Products Limited.
- (e) Shortly, the Stock Exchange ticker abbreviation for the Company will be changed from TEL to CEP.
- (f) Existing share certificates need not be submitted to the transfer agent for exchange as they will be honoured in their present form.
- (g) The remaining Divisions of the Company continue to operate profitably and we hope to report to you, shortly after the close of the present fiscal year, on a favourable note concerning the 1966-67 outlook.

Respectfully submitted on Behalf of the Board.

and my

M. O. SIMPSON, Chairman and President Carrier and the transfer of the state of the